



County of Los Angeles CHIEF EXECUTIVE OFFICE

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January 27, 2012

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name of the Chief Executive Officer.

MOTION TO SUPPORT SB 654 (STEINBERG) AND INSTRUCT THE COUNTY'S LEGISLATIVE ADVOCATES TO TAKE ALL APPROPRIATE ACTIONS TO SUPPORT THE PASSAGE OF SB 654 (ITEM NO. 3, AGENDA OF JANUARY 31, 2012)

Item No. 3 on the January 31, 2012 Agenda is a motion by Supervisor Ridley-Thomas to support SB 654 (Steinberg) and instruct the County's Legislative advocates in Sacramento to take all appropriate actions to support the passage of SB 654.

As explained below, approval of this motion to support SB 654 (Steinberg) is a matter for Board policy determination.

Background

The California Supreme Court's decision released on December 29, 2011, in *California Redevelopment Association v. Matosantos* case upholds AB X1 26 (Chapter 5, Statutes of 2011), which eliminated Redevelopment Agencies (RDAs), and invalidates AB X1 27 (Chapter 6, Statutes of 2011) that would have created voluntary alternative redevelopment programs, if cities and counties elected to make voluntary payments primarily to fund schools. In accordance with the Court order, RDAs will be dissolved on February 1, 2012.

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ABX1 26 eliminates RDAs and provides for the transfer of property tax revenues to successor agencies, the retirement of RDA debts and for limited administrative costs. The remaining revenues are to be distributed as property taxes to cities, counties, school and community college districts and special districts.

SB 654 (Steinberg)

SB 654 (Steinberg), as amended on January 11, 2012, would make changes to ABX1 26 to expand the definition of qualified debt and modify the provisions relating to the distribution of Low Moderate Income Housing (LMIH) funds. The bill contains an urgency clause making it effective immediately, if passed by a two-thirds vote of the Legislature and signed by the Governor. Specifically, SB 654 would:

- Expand the definition of an enforceable obligation to include two additional types of loan agreements between an RDA and its host city or county: 1) a loan that was executed within two years of the date of the creation of a project area, if the loan is specific to that project area; and 2) a loan to fund the RDA's FY 2009-10 Supplemental Educational Revenue Augmentation Fund (SERAF) payment to schools;
- Expand the type of agreements, contracts, or arrangements between an RDA and the host city or county considered valid, to include: 1) written agreements that provided loans or startup funds for the RDA that were entered into within two years of the date of the creation of a project area, if the loan is specific to that project area; and 2) any obligation to fund the RDA's FY 2009-10 SERAF payment to schools;
- Allow a host city or county of a dissolving RDA to retain funds on deposit in its LMIH fund and require the city or county to expend those funds in compliance with the housing provisions of the Community Redevelopment Law;
- Allow the local housing authority or the California Department of Housing and Community Development to retain LMIH funds if the city or county chooses not to assume the housing functions previously performed by an RDA; and
- Require, rather than permit, an entity assuming the housing functions of an RDA to enforce affordability covenants on affordable housing properties.

Governor's FY 2012-13 Proposed Budget

The Governor's FY 2012-13 Proposed Budget reflects the elimination of RDAs effective February 1, 2012, resulting in approximately \$1.05 billion in additional property tax revenue for schools, and projects additional property tax revenues of: \$340.0 million for counties; \$220.0 million to cities; and \$170.0 million to special districts. The Governor's Budget does not assume that RDA monies will remain in the LMIH fund. This office has confirmed with the Governor's office, that consistent with the provisions of ABX1 26, the proposed budget assumes that only enforceable obligations will remain available for housing purposes.

Potential County Impact

Transfer of the Low and Moderate Income Housing Fund Balance

If SB 654 is enacted, the undesignated LMIH funds will be retained by cities or counties that currently operate RDAs and agree to utilize those funds for LMIH purposes in compliance with Community Redevelopment Law. According to the FY 2009-10 California Redevelopment Agencies Report issued by California Department of Housing and Community Development as of June 30, 2010, RDAs in Los Angeles County had unencumbered/undesignated balances in their LMIH Fund of approximately \$233.0 million. **Pursuant to the RDA dissolution provisions in ABX1 26 of 2011, these funds are to be distributed to taxing entities, including the County General Fund which may potentially be entitled to \$70.0 million to \$93.0 million (30.0 to 40.0 percent) of undesignated LMIH funds.** It is very difficult to determine the potential amount of LMIH funds which could be reallocated to the County, because the only data available at this time is from FY 2009-10 and the type of financial obligations RDAs may have entered into prior to their dissolution on February 1, 2012 is unknown.

According to the Senate Appropriations Committee analysis, SB 654 will prevent the reallocation of approximately \$1.36 billion in unreserved LMIH funds to local governments and schools. The analysis notes that this amount could increase if it is later determined that amounts reported by RDAs as reserved are not enforceable obligations. The analysis indicates that to the extent that SB 654 prevents property tax revenues from flowing to schools following the dissolution of the RDAs, there would be a corresponding loss of State General Fund savings, which would otherwise offset the Proposition 98 guarantee to education. Assuming that 50.0 percent of this revenue would be allocated to schools, the committee analysis estimates a one-time State General Fund loss of as much as \$700.0 million. The remaining \$700.0 million in property tax revenue would no longer be available for reallocation to counties, cities, or

special districts. The committee analysis does not address the expansion of enforceable obligations.

The Community Development Commission (CDC) indicates that under the provisions of SB 654, it would be entitled to retain its share of undesignated LMIH funds by transferring them to Housing Authority for the County of Los Angeles (HACoLA). According to the CDC, approximately \$150,000 in non-encumbered CDC LMIH funds would go to HACoLA instead of being returned to other taxing entities, such as school districts, County General Fund, special districts. CDC indicates that the impact of this bill on the City of Industry Funds is still undetermined.

Expansion of Enforceable Obligations

SB 654 expands the scope of what is considered an enforceable obligation. ABX1 26 provides specific limits on what types of agreements, contracts and arrangements between an RDA and a host city or county are considered as qualified debt, where there is an obligation for continued payment by the successor agency. Pursuant to ABX1 26, loan agreements between an RDA and a host city or county executed within two years of the date of the creation of the redevelopment agency qualify as an enforceable obligation. SB 654 would expand this provision to also include loan agreements entered into within two years of the creation of a project area, for loan agreements specific to that project area. By expanding the scope of what is deemed to be an enforceable obligation, beyond that which is provided in ABX1 26, the total amount of tax increment that otherwise would be returned to taxing entities, like the County, would be reduced.

It is unclear how the expansion of the enforceable obligation definition would impact the County. The extent of the impact would depend on loan agreements executed on RDA projects within the two year period, as proposed in SB 654. While we have found some preliminary examples within the County where this provision would apply, most of this information would not be available to county auditor-controllers and successor agencies until months after the dissolution of RDAs when all audits have been completed.

Based on a preliminary analysis of Auditor-Controller data provided by redevelopment agencies, it is estimated that there is roughly \$856.0 million (principal and interest) of existing loan agreements between RDAs and host cities or counties. By analyzing a sample of existing agreements between RDAs and host cities, it was determined that an estimated 10.0 percent of those contractual obligations would qualify as "additional enforceable obligations" pursuant to the provisions of SB 654. **Therefore, it is estimated that the expansion of the enforceable obligation definition under SB 654 could result in the potential loss of \$85.0 million for taxing agencies**

within Los Angeles County, of which the County General Fund could lose approximately \$34.0 million.

It is important to note that this is a preliminary estimate, which may not be completely reliable because it is derived from information provided by redevelopment agencies without the County having access to source documentation to verify its validity.

This office, the Auditor-Controller, County Counsel, and CDC will continue to analyze the provisions of SB 654 to determine potential impact and will keep your Board apprised.

Board-Approved Policy

Historically, the County has opposed redevelopment proposals which would extend the receipt of tax increment revenues by RDAs and divert property tax revenues from local taxing entities by: 1) expanding the definition of redevelopment and therefore eligible RDA debt; 2) extending the time period of RDA indebtedness on existing project areas; 3) expanding the purpose of redevelopment; and 4) redirecting redevelopment funds for activities inconsistent with the objectives of redevelopment law. The County has also advocated to strengthen the requirements Community Redevelopment Law to prevent redevelopment abuse.

Existing Redevelopment Board Policies

The State Legislative Agenda adopted by your Board includes the following policies related to redevelopment:

- Minimize the adverse impact of State actions; and
- Oppose any redevelopment legislation which would cause the County to lose revenues.

Existing Affordable Housing Board Policies

The County also has existing Board-approved policy related to affordable housing as follows:

- Support proposals that provide incentives to local governments and/or developers to increase and protect affordable housing and flexibility for counties to promote a diversity of affordable house types through local policies; and

- Support proposals that increase home ownership opportunities for low- and moderate-income families, and employees in vital occupations.

Conclusion

Since there is divergence within the County's existing Board-approved policies regarding redevelopment and affordable housing legislation, approval of this motion to support SB 654 is a matter for Board policy determination.

SB 654 passed the Senate Appropriations Committee on January 19, 2012 by a vote of 8 to 0. The bill is currently awaiting consideration on the Senate Floor.

The bill is supported by the Cities of Brea, Buena Park, and Riverside and by a number of organizations including Affirmed Housing Group, California Housing Consortium, California Housing Partnership Corporation, California Infill Builders Association, Community Housing Partnership, Housing Now Human Investment Project Housing, and Skid Row Housing Trust. There is no opposition on file.

We will continue to keep you advised.

WTF:RA
MR:LY:sb

c: Executive Office, Board of Supervisors
County Counsel